Policy Brief

Building Quality Affordable Health Care for ALL New Yorkers

Health Care For All New York

No. 54 January 2013

Merging New York's Individual and Small Group Markets

The Affordable Care Act (ACA) requires states to establish a Health Benefit Exchange by 2014, or default to a federal one. However, states have considerable discretion when it comes to several key policy decisions. One option is to merge its small group and individual insurance markets. There are strong reasons for New York to merge its markets both inside and outside the Exchange.

Making individual premiums more affordable, at a modest cost to small business.

In the last 20 years, New York's standardized individual market has shrunk almost to the point of disappearing, with fewer than 50,000 individuals (as opposed to over 1.5 million in small group) now covered.

It has shrunk because premiums have grown to more than double the level of group coverage while some individuals (sole proprietors of businesses, freelancers) have been allowed to get group-type coverage at group-level prices. Those left in the individual market are often disabled people who cannot work or working people without group coverage whose medical costs are so high that it is worth it for them to pay the outrageous premiums of the individual market. Those high medical costs end up being covered by ever increasing premiums.

At the same time, HMOs have profited handsomely from the individual market, where individuals have no bargaining power, and used those unfair profits to keep prices competitive in the small group market.

Independent studies have predicted that merging the small group and individual markets would reverse the direction of this cross-subsidy to favor rather than penalize those with the greatest medical needs, reducing individual premiums by 25 to 45%, while increasing small business premiums from 2 to 9%. Although any increase in small group premiums is regrettable, and might lead to some loss in employer-provided coverage, those effects can be minimized with proper design of the employer contribution system.

The current individual insurance market penalizes those with the greatest medical needs.

Making more insurance choices available to individuals.

Merging the markets would allow individuals to choose from among dozens of plans available to small groups. Consumers needing the most comprehensive benefits would be cross–subsidized by the numerous small groups that also opt for more generous policies.

Reducing disruption and confusion at life changing events.

A market merger would mean that individuals who lose their jobs or start their own businesses can, when their COBRA benefits run out, keep the same insurance plan, with the same provider networks and same costs as they had when they were working, instead of having to start all over again. And, if the small business component of the exchange is property designed, they will also be able to keep their individual coverage in place when they join a new workplace. Changing jobs should not be cause for disruptions in care and in relationships with trusted doctors.